

**OFFICE OF THE INSPECTOR GENERAL  
OF THE DEPARTMENT OF DEFENSE**

**SUMMARY OF  
REPORTS ISSUED AND  
PARTICIPATION ON MANAGEMENT ADVISORY TEAMS  
AND SPECIAL AUDIT/EVALUATION EFFORTS**

**JANUARY, FEBRUARY, AND MARCH 2004**



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# PART I

## REPORT SUMMARIES

### *ACQUISITION PROGRAM*

**REPORT NO. D-2004-046. Acquisition of the CH-47F Improved Cargo Helicopter.** This is the first of two reports that discuss acquisition of DoD heavy-lift helicopters. The report discusses acquisition issues that must be addressed before the program progresses further through the acquisition process.

The Army had not finalized a revision to the 1997 Operational Requirements Document for the CH-47F to support the Project Manager, Cargo Helicopter's (the Project Manager's) revised acquisition strategy and establish required system interoperability and training asset requirements. Additionally, the Project Manager did not submit a waiver request to the Army Director, Enterprise Architecture Acquisition for non-compliance with standards from the Joint Technical Architecture - Army, and did not submit the cost-benefit analyses to the Office of the Deputy Assistant Secretary of the Army for Cost and Economics to support his decision to recapitalize 103 system components for validation. Additionally, the CH-47F aircraft may not fully meet the DoD objective for systems to have an open design. Further, the Office of the Deputy Assistant Secretary of the Army for Cost and Economics cannot validate for the Army Acquisition Executive the cost-effectiveness of the Project Manager's decisions to remanufacture aging components or to purchase new components without benefit of the cost-benefit analysis. Expediting the review and approval of the updated Operational Requirements Document will allow the Project Manager to update the low-rate initial production contract to fully address interoperability requirements and update acquisition planning documents for the CH-47F. Submitting a waiver request for noncompliance with standards from the Joint Technical Architecture - Army will make the Army Acquisition Executive aware of potential interoperability shortfalls and better able to oversee system interoperability upgrades in future evolutionary acquisition blocks. Providing the Deputy Assistant Secretary of the Army for Cost and Economics with the cost-benefit analysis information will enable the Office of the Deputy Assistant Secretary to validate the Project Manager's decision to remanufacture the aircraft components.

The Army and the U.S. Special Operations Command are to be commended for initiating corrective actions during the audit to address audit issues on updating and approving a draft memorandum of agreement for coordinating development and production of the CH-47F and MH-47G and for establishing procedures for ensuring prompt communication of critical information between their administrative contracting offices.

**REPORT NO. D-2004-047. Implementation of the DoD Management Control Program for Army Acquisition Category II And III Programs.** The report provides an assessment of how the Army can improve its management control program for oversight of Army weapon system programs.

The Army did not effectively integrate the requirements of the DoD Management Control Program into its management assessment and reporting process for 10 Acquisition Category II and III programs that had an estimated life-cycle cost of \$10.6 billion. As a result, program managers did not provide milestone decision authorities with timely and documented information that would have enabled them to assist program managers who were experiencing cost overruns, schedule delays, and performance problems. Further, Army milestone decision authorities made important program decisions at milestone decision points with incomplete information on the readiness of the systems for the next phase of the acquisition process. To ensure that Army milestone decision authorities make informed investment decisions, the Army needs to establish a reporting requirement for Acquisition Category II and III program managers to report, at least quarterly, their progress toward attaining cost, schedule, and performance requirements in acquisition program baselines and preparing and obtaining required program documentation before milestone decision reviews. Implementation of this reporting requirement will enable Army milestone decision authorities to ensure that program managers are on schedule toward satisfying program requirements, submitting program deviation reports when required, and reporting deviations from acquisition program baselines as material management control weaknesses.

**REPORT NO. D-2004-052. Sole-Source Awards for Quick Disconnect Silencers.** The report discusses the allegations concerning sole-source awards and operational capability of the quick-detach silencer. The terms silencer and suppressor are synonymous and here after suppressor will be used in the narrative. The audit was performed in response to a congressional request concerning allegations about the award process for recent sole-source contracts to Knight Armament Corporation for the quick-detach suppressor. The complainant also raised questions about the accuracy, cost, loudness, and operational suitability of the subject suppressor as compared to his company's suppressor.

We substantiated the portion of the allegation concerning questionable sole-source awards. Naval Surface Warfare Center did not adequately plan procurements for the M4A1 Carbine suppressors to meet future mission requirements. As a result, the Naval Inventory Control Point inappropriately justified the award of sole-source contracts and did not meet the intent of the "Competition in Contracting Act" and section 2304 of title 10, United States Code. In addition, the Naval Inventory Control Point awarded an additional sole-source contract at the same time a competitive solicitation was open. Those awards may not have been in the best interest of the Government. To improve acquisition planning and increase competition, the Naval Surface Warfare Center, Crane Division should establish procedures to ensure acquisition planning is performed in accordance with the Federal Acquisition Regulation, reevaluate whether to continue with the current competitive solicitation or recompet the award, and only place delivery orders on Knight Armament Corporation sole-source contract N00164-03-D-L003, to support compelling urgency. The complainant's

concerns about characteristics of the quick-detach suppressor were not substantiated. Quality comparisons of the complainant's suppressor to the subject suppressor were not meaningful because they involved different weapons.

**REPORT NO. D-2004-054. Allegations of the Defense Contract Management Agency's Performance in Administering Selected Weapon Systems' Contract.** This is the second in a series of reports concerning allegations made to the Defense Hotline on the Defense Contract Management Agency (DCMA) oversight of the contractor's performance on the C-130, F-22, and C-5 aircraft. The report addresses allegations related to the pricing of spare parts under the C-5 Program Depot Maintenance contract (C-5 letter contract), payments made to Lockheed Martin Aeronautical Systems Company for delivered C-5 spare parts, management of the Risk Assessment and Management Program, and rotation of administrative contracting officers within DCMA.

We did not substantiate the allegations. Government records showed that duplicate payments were not made to Lockheed Martin Aeronautical Systems Company for the sample of spare parts we reviewed. We did identify that a clerical error caused an overpayment of \$15,574.68 on one part selected, and officials agreed to take action to recover the overpayment. Defense Finance and Accounting Service records showed that the Government has so far paid less than the Government recommended price for the aircraft bracket, but a final price has not been negotiated. In addition, although supervisory officials may change the risk rating in the Risk Assessment and Management Program, management controls are in place to ensure that the changes are not arbitrary. Also, although rotations of administrative contracting officers occurred, officials from system program offices supported the rotations and did not view them as detrimental to their programs.

Apart from the allegations, we identified that the inventories in the Standard Automated Materiel Management System were not always accurate because manual payments made for spare parts were not recorded by individual spare part number in the database.

**REPORT NO. D-2004-056. Air Force Satellite Control Network Contract.** This report discusses allegations submitted to the DoD Hotline concerning questionable contracting practices during the award and administration of the contract for the Satellite Control Network. The allegations stated that: the program is in jeopardy and will cost the taxpayer \$1.7 billion over the next 15 years due to cost over runs, which have occurred and will continue to occur as a result of Honeywell intentionally underestimating costs in its initial cost proposal; Honeywell incorrectly stated it had an earned value management system in place at the time of contract award and subsequently billed the contract for implementing the required system certification; Honeywell inappropriately charged the contract for Six Sigma, a quality control program; Honeywell improperly charged the contract for the purchase of new computers; and the Air Force increased program costs and decreased contract administration efficiency by splitting the program into development and sustainment elements.

We substantiated that the modernization program for the Air Force satellite tracking station was experiencing cost over runs. We identified cost over runs estimated at



\$59.8 million through FY 2009 and schedule delays of 24 months on the Satellite Control Network contract. The Air Force should conduct a program review to determine the effect of the cost over runs on program cost, schedule and performance and whether the program goals will be accomplished in a cost-effective manner.

We substantiated that Honeywell stated it had an earned value management system in place at time of contract award when it did not, and we also determined that the Air Force erroneously reimbursed Honeywell for costs for building the earned value management system. The Air Force Space and Missile Systems Center should use appropriate remedies provided by the Federal Acquisition Regulation to correct the misstatement made by Honeywell and obtain equitable reimbursement for the overpayment of Earned Value Management System costs. These remedies should include obtaining the services of the Defense Contract Audit Agency to audit the costs associated with building the earned value management system and obtain reimbursement for the unallowable costs. Also, the next award fee determination for this contract should reflect Honeywell's inability to meet contract requirements for having a compliant earned value management system. Further, the Air Force Space and Missile Systems Center should initiate appropriate civil or criminal proceedings, or both, against Honeywell for violating false claim and false statement statutes.

We did not substantiate allegations that the contract over runs resulted from Honeywell's intentionally underestimating costs in its proposal or that the contract would cost \$1.7 billion over 15 years. Additionally, we did not substantiate allegations pertaining to a Six Sigma quality control program, computer procurements, or splitting the program office.

**REPORT NO. D-2004-057. Contracts Awarded for the Coalition Provisional Authority by the Defense Contracting Command-Washington.** The report provides insight on the actions that members of the Office of Reconstruction and Humanitarian Assistance/Coalition Provisional Authority and the Defense Contracting Command-Washington (DCC-W) took when awarding contracts for humanitarian assistance. The report also provides information regarding post-award oversight by DoD officials of the contractors involved. Between February 2003 and August 2003, DCC-W awarded 24 contracts, valued at \$122.5 million. In May 2003, the Defense Contract Audit Agency (DCAA) began reviewing the contracts. During the review, DCAA found irregularities in both the award and administration of the contracts and recommended that we perform an in-depth review.

DoD did not plan for the acquisition support that the Office of Reconstruction and Humanitarian Assistance required to perform its mission. As a result, supplies and services were quickly acquired and contracting rules were either circumvented or liberally interpreted. Specifically: personnel who generated contract requirements did not establish firm contract requirements (8 of 24); contracting officers misused GSA Federal Supply Schedules (10 of 18 contracts awarded using the Schedules); contracting officers inappropriately awarded personal services contracts (10 of 24); contracting officers permitted out-of-scope activity (1 contract), and did not support price reasonableness determinations (22 of 24); and officials performed little or no Government surveillance on awarded contracts (13 of 24). As a result, DoD cannot be assured that the best contracting solution was provided, that DoD received fair

and reasonable prices for the goods and services, or that the contractors performed the work the contract required.

The Commander, DCC-W should analyze any ongoing contracts for personal services, determine the Government liability, and initiate appropriate termination actions. The Commander should also comply with the Federal Acquisition Regulation regarding documentation of contract files, appoint trained points of contact or contracting officer representatives for Iraqi contracts, require monthly status reports of the contracts, ensure the Government is refunded overpayments made to contractors, and use Federal Supply Schedules for their intended purposes.

The problems identified are primarily attributed to the need to react quickly to the rapidly changing situation in Iraq in early 2003 and the fact that acquisition support was an afterthought to the Office of Reconstruction and Humanitarian Assistance. We did not identify where actions taken by Government personnel were based on the desire for personal gain despite numerous acquisition problems. We recognize that DCC-W contracting personnel were in a difficult and time sensitive position. However, the Federal Acquisition Regulation was established to ensure that DoD obtains quality products and services at fair and reasonable prices and the Regulation was not followed for 22 of the 24 contracts. Accordingly, the Commander, DCC-W should perform a review and initiate appropriate administrative actions for contracting officers that did not follow prescribed procedures.

### ***CONTRACTING OVERSIGHT & QA***

**REPORT NO. D-2004-055. DoD Source Approval Process for Service & Sales, Inc., a Small Business Manufacturer.** The report concerns procuring spare parts competitively from a qualified women-owned small business manufacturer. The audit was performed in response to a complaint made to the Defense Hotline. The complaint made five allegations that the ability of Service & Sales, Inc. to compete was inhibited for spare parts orders of parts previously supplied to DoD that were included on a licensing agreement with Honeywell International, Inc. (Honeywell). Specifically, the allegations stated that parts for which Service & Sales, Inc. was an approved alternate source had been placed on a sole-source contract with Honeywell, Service & Sales was removed as a potential source because it had not recently supplied the parts, Defense Logistics Agency (DLA) source approval data was not accurate, DLA was inappropriately removing approved source designations, and Service & Sales was inappropriately removed as an approved source for a specific product line.

The first three allegations were substantiated, the fourth allegation was partially substantiated, and the fifth allegation was not substantiated. DLA and the Service Engineering Support Activities had not effectively approved Service & Sales, Inc. as an alternate source of supply for 253 of 434 items included on a licensing agreement with Honeywell and 19 of 28 items not included on the licensing agreement but previously supplied to DoD. As a result, DLA was generally procuring the items from the original equipment manufacturer instead of

procuring the items competitively and using a small business manufacturer. DLA should take immediate action to reinstate Service & Sales, Inc., as an approved source of supply for items previously manufactured, establish procedures that document why a source is removed from the list of approved manufacturers, and notify the contractor when removed. DLA should also develop, in conjunction with the Service Engineering Support Activities, consistent and realistic guidance and procedures for reevaluating sources for critical safety items and critical application items and for addressing source approval requirements for items included on licensing agreements with original equipment manufacturers.

## ***COOPERATIVE THREAT REDUCTION***

**REPORT NO. D-2004-050. Management Structure of the Cooperative Threat Reduction Program.** This report, which is one in a series requested by the Deputy Secretary of Defense, discusses the organizational arrangements between the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics (USD(AT&L)); the Under Secretary of Defense for Policy; and the Defense Threat Reduction Agency (DTRA) for the Cooperative Threat Reduction (CTR) Program.

USD(AT&L) did not fulfill its responsibilities for managing the implementation and execution of CTR Projects. For the CTR projects on which we previously reported, the Government lost \$195.2 million because the disposal facilities for liquid propellant and solid rocket motors will not be used for their intended purposes. Also, although DoD has invested \$576.7 million on storage facilities for fissile materials and destruction facilities for chemical weapons, those projects are at risk of not being used for their intended purposes. The Director, Administration and Management should coordinate with USD(AT&L); the Under Secretary of Defense for Policy; and the Director, DTRA to update DoD directives to clarify CTR responsibilities. Because the OUSD(AT&L) established a position to oversee CTR implementation in July 2003, it needs to determine the appropriate staffing level for that office, fill those positions, and determine what management information is needed to fulfill the roles, responsibilities, and coordination requirements for the CTR program.

## ***FINANCIAL***

**REPORT NO. D-2004-043. Promptness of FY 2004 Second Quarter DoD Payments to the Department of Treasury for District of Columbia Water and Sewer Services.** This report discusses the promptness of water and sewer payments to the District of Columbia. The audit was conducted in response to Public Law 106-554, the Consolidated Appropriations Act of 2001.

DoD Components promptly made second quarter FY 2004 payments totaling \$1.2 million to the Department of the Treasury for District of Columbia water and sewer services. Fort McNair, the Navy, Bolling Air Force Base, and Walter Reed Army Medical Center were the only DoD Components required to pay this quarter. The National Geospatial-Intelligence Agency, Washington Headquarters Services, Arlington National Cemetery, and Fort Myer have credit balances from prior overpayments and were not required to make quarterly payments for the FY 2004 second quarter.

**REPORT NO. D-2004-044. Subsidiary Ledgers at the U.S. Army Corps of Engineers.**

This report addresses the need for subsidiary accounting ledgers in the Corps of Engineers Financial Management System (CEFMS).

CEFMS does not include subsidiary ledgers that support U.S. Army Corps of Engineers (USACE), Civil Works financial statements. The supporting records for the various accounts are decentralized at 61 activities and are not automatically compiled into one subsidiary ledger that supports the general ledger account. As a result, sums of subsidiary records differed with selected Defense Departmental Reporting System trial balances for FY 2002 by an absolute value of \$2.8 billion. General ledger and subsidiary records are difficult to accurately reconcile at the top level, audit trails are weakened, and reliable financial data are not readily available either to Corps of Engineers financial managers or for audit as required by DoD guidance. USACE should program CEFMS to automatically compile its decentralized records, reconcile general ledger and supporting records, maintain complete audit trails, and make error corrections at the transaction level.

**REPORT NO. D-2004-051. DoD Payroll Withholding Data for FY 2003.** The report discusses the results of agreed-upon audit procedures developed by the Office of Personnel Management (OPM).

The payroll withholding amounts and total payroll amounts that the Defense Finance and Accounting Service (DFAS) reported to OPM did not exactly match the supporting detail DFAS provided for our analysis. This is a repeat issue from prior IG DoD audit reports, and DFAS is developing computer storage to resolve the issue. We selected a sample of 236 employees and compared their payroll withholdings to authorizations in their official personnel files. The comparison revealed 34 discrepancies (percentages apply to the sample of 236 not to the whole populations): 8 gross pay discrepancies (3.39 percent), 9 life insurance withholding discrepancies (3.81 percent), 4 health benefits withholding discrepancies (1.69 percent), 10 Thrift Savings Plan Discrepancies (4.24 percent), and 3 Federal Employees Retirement System withholding discrepancies (1.27 percent).

We performed the agreed-upon procedures specifically pertaining to payroll. We were not engaged to and did not perform an audit with the objective of expressing an opinion on the withholdings and contributions for health benefits, life insurance, retirement, and on the employee headcount of DoD. Therefore, we are not expressing an opinion. However, we performed additional procedures based on generally accepted government auditing standards

that we considered necessary to report to OPM. We compared Form 592s, used for Payroll Certification and Summary, with the total payroll amounts in the payroll files. We found significant discrepancies. DFAS personnel explained that errors occurred when the Form 592s were downloaded twice, causing the computer to double the amounts in the reports. In addition, DFAS personnel stated that the reports were not reconciled to payroll before being reported to DFAS Cleveland and before being presented to the Director, Civilian Payroll Operations for signature. DFAS should reconcile the Form 592s to payroll prior to certifying that the payroll is correct and proper for payment, and should download the Form 592s only once for payroll-certifying officer's signature.

In addition, DFAS and supporting DoD organizations could improve management controls over the accuracy of the payroll amounts withheld and remitted to OPM. The withholding amounts we calculated while performing the agreed-upon procedures differed from the withholding amounts presented in DFAS reports. The differences for retirement and life insurance were less than the reporting threshold criteria of one percent established in the agreed-upon procedures. However, some of the differences for health withholding exceeded the reporting threshold criteria. DFAS personnel said that the differences for health benefits withholding were due to payments for indebtedness for health benefits that they did not include in the data sent to us.

**REPORT NO. D-2004-053. Defense Threat Reduction Agency Relocation Costs.** The audit resulted from three allegations forwarded by the General Accounting Office (GAO) to the Defense Hotline, the primary one being that the Defense Technology Security Administration (DTSA), which was a component of the Defense Threat Reduction Agency (DTRA), violated the Antideficiency Act by exceeding a congressionally mandated cap on moving expenses within the National Capital Region. Another allegation was that DTSA obtained sensitive compartmented information clearances for personnel who did not need such access, resulting in excessive costs and a potential security risk. The final allegation was that furniture, partitions, classified safes, and file cabinets were thrown away, excessed, or abandoned to avoid moving costs and replaced by items from funds not affected by the cap and, therefore, circumvented the budgetary constraint that Congress imposed. Also, the new facilities were not structurally capable of supporting the weight of the safes.

DTRA complied with the intent of the Congressional reporting requirement on moving costs, but needed to improve administrative controls over the processing of requests for security clearances. Although the costs of the DTRA move exceeded the \$500,000 cap as stated in the FY 2001 Defense Appropriation Act, we concluded that DTRA had sufficiently complied with the requirements for a waiver. Section 8021 of the FY 2001 Defense Appropriations Act permits the Secretary of Defense to waive the cap by certifying that the move was in the best interest of the Government and by providing notice about the move to Congress. Improvements were needed, however, in the way that Congress was notified of the waiver decision.

DTRA had the appropriate justifications for providing sensitive compartmented information clearances for its personnel and was in compliance with DoD Manual

5105.21-M-1, "Sensitive Compartmented Information Administrative Security Manual," August 1998, but had not complied with Code of Federal Regulations, Title 5, Part 732, "National Security Positions," (2003) because the designated position sensitivity levels in the position descriptions did not always support the security clearance level given the employee. DTRA reduced the number of safes from 205 to 33 because it was determined that the safes were being used to store unclassified information as well as unneeded duplicate copies of classified documents. The OIG had a standing request with Washington Headquarters Services to occupy any vacant space at 400 Army Navy Drive. When DTRA moved, OIG occupied the space and furniture that DTRA vacated. An independent third party reviewed our work pertaining to the furniture issue and agreed with our assessments and conclusions.

**REPORT NO. D-2004-058. Early Payment of Invoices by the Defense Finance and Accounting Service Columbus.** This audit was conducted in response to allegations to the Defense Hotline. The complaint alleged the Defense Finance and Accounting Service (DFAS) Columbus was not paying invoices in accordance with the Prompt Payment Act and Lockheed Martin, Northrop Grumman, and Raytheon were given preferential treatment in the form of early payment of their invoices because of their size and influence. According to DFAS Columbus, the Contract Pay Product Line payments in FY 2001 were \$87 billion. The report discusses paying contractors on time, and the issues associated with making payments prematurely.

There was insufficient evidence to substantiate the allegation that DFAS Columbus made early payments directly resulting from contractor-provided Hot Lists or gave preferential treatment to the three contractors named in the allegation. However, from January 2002 through January 2003, DFAS Columbus regularly paid invoices from the three contractors in the Hotline allegation, as well as other DoD contractors, earlier than allowed by the Prompt Payment Act. DFAS Columbus paid 108 invoices totaling \$300 million from the three Hotline contractors, and an additional 6,691 invoices totaling \$1.3 billion to other DoD contractors, more than 7 days prior to the due date. Because DFAS Columbus did not effectively adhere to the cash management requirements of the Prompt Payment Act there was a potential cost to the U.S. Treasury of about \$1.5 million in lost interest. To improve cash management, DFAS Columbus needed to establish procedures to prevent the invoices it manually-processes from being paid before the Prompt Payment Act allows them to be paid.

**REPORT NO. D-2004-059. Assets Depreciation Reported on the U.S. Army Corps of Engineers FY 2002 Financial Statements.** This report discusses problems in the calculation and reporting of accumulated depreciation, and the inadequate disclosure of facts related to the preparation of financial statements.

We were not able to verify the beginning balance for accumulated depreciation. Further, in the process of performing agreed-upon procedures, we identified deficiencies in the disclosure of information in the notes accompanying the financial statements. Finally, we determined that the U.S. Army Corps of Engineers (USACE) calculations relative to the "useful life" of a property were not always in compliance with DoD standards. The \$12.5 billion presented in the USACE FY 2002 financial statements for accumulated



depreciation was not reliable. As a result, the beginning balance for accumulated depreciation to be reported in the USACE FY 2003 financial statements could be misstated by as much as \$293 million (net). USACE should verify the recorded depreciation for all of its buildings and structures and correct the accumulated depreciation for those assets.

We concluded, after reviewing the notes to the FY 2002 financial statements, that USACE did not adequately disclose the relationship between itself and the Power Marketing Administrations. Because of these disclosure omissions, the financial statements did not provide relevant information about the USACE business operation. USACE should provide adequate disclosure in the financial statement for those accounts affected by the relationship between the assets owned and operated by USACE, and the Power Marketing Administrations' marketing of the electrical power derived from some of these assets. USACE did not comply with the guidance pertaining to "useful life" contained in DoD 7000.14-R, "DoD Financial Management Regulation," when depreciating its buildings and structures. As a result, USACE could be significantly understating accumulated depreciation in its financial statements. USACE should perform a study to determine the true useful life of its assets and request a revision to DoD 7000.14-R for those assets, if necessary. In addition, USACE should verify the accuracy of the useful lives assigned to its assets and update the engineering regulation to include guidance relative to useful life for its Other civil assets.

**REPORT NO. D-2004-063. Controls Over U.S. Army Corps of Engineers Buildings and Other Structures.** The report discusses controls needed to support the financial reporting of buildings and other structures.

Sufficient controls were not in place to ensure that 95 percent (5,470) of the 5,758 buildings and other structures, with a change made to book cost between October 1, 1999, and September 30, 2002, were valued correctly on the U.S. Army Corps of Engineers (USACE) Civil Works FY 2002 Financial Statements. Specifically, the placed-in-service and retirement dates were often unsupported or improperly established in the Corps of Engineers Financial Management System, "useful life" of the buildings and other structures was not always established in accordance with Engineer Regulation 37-2-10, "Financial Administration - Accounting and Reporting, Civil Works Activities," and book costs of buildings and other structures were frequently not supported by sufficient third party documents. As a result, USACE has a high-risk control environment that may result in a material misstatement of the Civil Works financial statements. Standardized procedures for documenting and reporting financial events affecting the valuation of USACE buildings and other structures, along with training Corps of Engineers personnel to follow the procedures, are critical to providing timely, accurate data for financial statements.

USACE established a zero-dollar capitalization threshold for buildings and other structures that was unreasonably low and did not comply with DoD policy. The low dollar threshold created an unnecessary and costly workload at district offices and contributed to weaknesses in the controls over buildings and other structures. The USACE decision on August 12, 2003, to increase the capitalization threshold to \$25,000 for buildings and other structures needs to be supported by a detailed cost analysis, and must be approved by the Under Secretary of Defense (Comptroller)/Chief Financial Officer. USACE should also

update policy guidance for implementing the new capitalization threshold and ensure that the assets removed from financial accountability were properly valued.

Controls at district offices did not ensure that computer data systems access was properly controlled, and that information in the systems was complete and accurate. As a result, the amounts recorded for buildings and other structures in the USACE Civil Works FY 2002 Financial Statements were misstated. In addition, USACE had limited assurance that buildings and other structures would be fairly stated in the FY 2003 financial statements. USACE should review systems access, perform and resolve problems identified during physical inventories, implement proper fiscal year closeout procedures, and standardize methods for classifying and recording buildings and other structures. During the audit, USACE reemphasized and clarified some of its policies and increased the capitalization threshold for buildings and other structures.

## ***HUMAN CAPITAL***

### **REPORT NO. D-2004-065. DoD Implementation of the Voting Assistance Program.**

Section 1566, chapter 80 of title 10, United States Code, requires IG DoD to annually assess each Service's compliance with the Uniformed and Overseas Citizens Absentee Voting Act (the Act), DoD regulations, the Federal Voting Assistance Program, and other requirements of law regarding voting by members of the Armed Forces. Additionally, section 1566 requires the IG of each Service to conduct annual reviews of the effectiveness of and compliance with voting assistance programs.

The Federal Voting Assistance Program continued to provide a variety of valuable resources and assistance to voting assistance officers and uniformed absentee voters in 2003. However, opportunities exist to improve the DoD voting assistance program, as evidenced by the 3 partially effective and 7 ineffective programs at the 10 installations we visited. Additionally, 58 percent of the respondents who completed our questionnaire did not know who their unit voting assistance officer was. The Under Secretary of Defense for Personnel and Readiness needs to expedite revisions to DoD Directive 1000.4, "Federal Voting Assistance Program," June 3, 2002, and the issuance of the 2004-2005 DoD Voting Plan to ensure that revisions and enhancements to the DoD absentee voting program will benefit uniformed absentee voters during the 2004 Federal elections. Although the Air Force voting assistance program was not fully compliant with DoD guidance, it generally continued to maintain a program that was more effective than the other Services. The Navy and the Marine Corps had implemented or planned improvements to their voting assistance programs; however, several problems identified in our reports after the 2000 and 2002 elections continued to exist in 2003 for all the Services. The Services must provide command emphasis at all levels of command and need to improve oversight of program implementation in order to ensure: that voting assistance programs are consistently effective, to include voter awareness



and understanding of the absentee ballot process; and that unit voting assistance officers are appointed and properly trained in a timely manner to assist uniformed absentee voters.

Updating Service voting assistance program guidance, establishing full-time Service Voting Action Officers, and developing a reporting system on installation compliance with voting assistance programs are steps that will help to ensure that DoD has an effective absentee voting program. Additionally, the Services should ensure that junior enlisted and first-time voters are aware of absentee voting procedures and that the Service IGs provide voting assistance program inspection results to their Service Voting Action Officers on a continuing basis. Frequent deployments, increased operational requirements, and worldwide commitments are compelling reasons for DoD to improve the effectiveness of its program. As stated in our last report, it is imperative that uniformed absentee voters be given the knowledge and tools necessary to exercise their constitutional right to vote, if they choose to do so.

## ***LOGISTICS***

**REPORT NO. D-2004-048. Allegations Concerning Management Practices at Defense Distribution Depot Susquehanna, Pennsylvania.** We performed this evaluation in response to a congressional request. Congressman Todd Russell Platts forwarded an inquiry that contained 20 allegations of inappropriate management practices at the Defense Distribution Depot Susquehanna, Pennsylvania (DDSP). Of the 20 allegations, 12 relating to day-to-day operations were forwarded to the Defense Logistics Agency (DLA) for review. Another allegation concerning personnel management was addressed by both DLA and OIG DoD. This report discusses allegations of inappropriate management practices at DDSP.

None of the 13 allegations addressed by DLA were substantiated. None of the eight allegations addressed by OIG DoD were substantiated, primarily because management at DDSP made prudent decisions and took appropriate action in responding to significant unforeseen workload fluctuations and organizational issues. However, we did find opportunities for improvement in performance management for container consolidation point management and the Distribution Standard System.

## ***OTHER***

**REPORT NO. D-2004-061. Export-Controlled Technology at Contractor, University, and Federally Funded Research and Development Center Facilities.** This report discusses the steps DoD needs to take to identify unclassified export-controlled technology and to ensure that

DoD contractors, universities, and Federally Funded Research and Development Centers are preventing unauthorized disclosure to foreign nationals.

DoD does not have adequate processes to identify unclassified export-controlled technology and to prevent unauthorized disclosure to foreign nationals. Of the 11 contractors, 6 universities, and 3 Federally Funded Research and Development Centers visited: 15 relied on the contract to identify whether the technology was export controlled and three of the 11 contractors and 1 of the 3 Federally Funded Research and Development Centers were unaware of Federal export laws and regulations related to export-controlled technology.

As a result, at least two contractors and one university granted foreign nationals access to unclassified export-controlled technology without proper authorization. Unauthorized access to unclassified export-controlled technology could allow foreign nations to counter or reproduce the technology and thus reduce the effectiveness of the technology, significantly alter program direction, or degrade combat effectiveness. Guidance on export-controlled technology should be developed and implemented to be commensurate with acquisition and classification guidance. Specifically, guidance should be developed to include responsibilities and requirements for DoD personnel and contractor, university, and Federally Funded Research and Development Center facilities. In addition, because DoD program managers and contracting officers are not required to incorporate specific Federal export requirements into the contract, those facilities who rely on the contract to identify export-controlled technology may not be aware that export-controlled technology exists. Therefore, the Defense Federal Acquisition Regulation Supplement should be changed to incorporate the requirements of Federal export laws and regulations and to ensure that DoD program managers and contracting officers incorporate the requirements into contractual documentation. Implementing the recommendations in this report should correct the management control weaknesses identified for both the Under Secretary of Defense for Acquisition, Technology, and Logistics and the Deputy Under Secretary of Defense for Technology Security Policy and Counterproliferation. The interagency report was issued as D-2004-062. The DoD report is included verbatim in Appendix C of the interagency report.



## **PART II**

### **PARTICIPATION ON MANAGEMENT ADVISORY TEAMS AND SPECIAL AUDIT/EVALUATION EFFORTS**

#### **Summary of the Office of the Deputy Inspector General for Auditing - Participation on Management Advisory Teams**

(Area Code 703 unless otherwise indicated)

Acquisition Governance Board—DoD Charge Cards (DAVID STEENSMA, 604-9201)

*Lead Components: Under Secretary of Defense for Acquisition, Technology, and Logistics and  
Under Secretary of Defense (Comptroller)*

Army Intermodal and Distribution Platform Management Integrated Process Team

(RON HODGES, 604-9592)

*Lead Component: Army G-4 (Logistics) Support Activity*

Business Management Modernization Program (MARY UGONE, 604-9002)

*Lead Component: Under Secretary of Defense (Comptroller)*

Commercial Activities Inventory Integrated Process Team (HENRY KLEINKNECHT, 604-9324)

*Lead Components: Under Secretary of Defense for Acquisition, Technology, and Logistics and  
Under Secretary of Defense for Personnel and Readiness*

Defense Acquisition Policy Working Group (JOHN MELING, 604-9091)

*Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics*

DLA/Alcoa Fastener Strategic Supplier Alliance (HENRY KLEINKNECHT, 604-9324)

*Lead Component: Defense Logistics Agency*

DLA/Honeywell Strategic Supplier Alliance Relationship (HENRY KLEINKNECHT, 604-9324)

*Lead Components: Deputy Under Secretary of Defense (Acquisition Reform) and  
Defense Logistics Agency*

DoD A-76 Integrated Process Team (ANELLA OLIVA, 604-9323)

*Lead Components: Under Secretary of Defense for Acquisition, Technology, and Logistics*

DoD Investment Board (DAVID STEENSMA, 604-9201)

*Lead Components: Defense Finance and Accounting Service*

Federal Information Security Management Act Information Assurance Integrated Process Team  
(KATHY TRUEX, 604-8966)

*Lead Component: Assistant Secretary of Defense (National Information Infrastructure)*

Past Performance Integrated Process Team (BOBBIE SAU WAN, 604-9259)

*Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics*

PCIE Competitive Sourcing Roundtable (DAVID STEENSMA, 604-9201)

*Lead Component: Inspector General, Department of Interior*

Real Property Inventory (BARBARA SAULS, 604-9129)

*Lead Component: Deputy Under Secretary of Defense (Installations and Environment)*

## **Summary of the Office of the Deputy Inspector General for Auditing - Participation in Special Audit/Evaluation Efforts**

### **Audit Committees:**

- Army Financial Statement Audit Committee (PAUL GRANETTO, 604-9101)
- Defense Advanced Research Projects Agency (BARBARA SAULS, 604-9129)
- Defense Commissary Agency (BARBARA SAULS, 604-9129)
- Defense Contract Audit Agency (PAUL GRANETTO, 604-9101)
- Defense Finance and Accounting Service (PAUL GRANETTO, 604-9101)
- Defense Information Systems Agency (RICHARD BIRD, 604-9102)
- Defense Logistics Agency (PAUL GRANETTO, 604-9101)
- Defense Security Service (DOUG NEVILLE, 604-8929)
- Defense Threat Reduction Agency (LEON PEEK, 604-9158)
- DoD Medicare Eligible Retiree Health Care Fund (JIM KORNIDES, 614-751-1400 x211)
- Missile Defense Agency (BARBARA SAULS, 604-9129)
- National Reconnaissance Office (LEON PEEK, 604-9158)

Defense Finance and Accounting Service Validation of Fund Balance With Treasury  
(DOUG NEVILLE, 604-8928)

### **DoD/DFAS**

- Footnote Working Group (MARK HENRICKS, 604-2016)
- Reconciliation Process (DEBRA ALFORD, 604-9004)
- Statement of Financing (MICHAEL DURDA, 604-9073)

### **Federal Audit Executive Council Multi-Agency Working Groups:**

- Government Wide Financial Statements (RICHARD BIRD, 604-9102)

### **Financial Statement Audit Network:**

- Financial Audit Manual Revisions (JACK ARMSTRONG, 317-510-3846)
- Audit Programs (LORIN PFIEL, 604-9057)
- Contract Language (MIKE HILL, 604-9120)

### **Joint Audit Planning Groups:**

- Acquisition Program (MARY UGONE, 604-9002)
- Base Realignment and Closure (BRAC) (DEBORAH CULP, 604-9335)
- BRAC Education & Training Joint Cross Service Group (JCSG)  
(KENNETH VAN HOVE, 604-9564)
- BRAC Headquarters & Support Activities JCSG (RON HODGES, 604-9592)

Joint Audit Planning Groups (cont.):

BRAC Industrial JCSG (DENNIS PAYNE, 604-8907)  
BRAC Industrial JCSG Working Group (DENNIS PAYNE, 604-8907)  
BRAC Medical JCSG (MIKE JOSEPH, 757-872-4698)  
BRAC Supply and Storage JCSG (DENNIS PAYNE, 604-8907)  
BRAC Supply and Storage JCSG Working Group (DENNIS PAYNE, 604-8907)  
BRAC Technical JCSG (BRUCE BURTON, 604-9071)  
Competitive Sourcing (HENRY KLEINKNECHT, 604-9324)  
Construction, and Sustainment (DEBORAH CULP, 604-9335)  
Contracting Oversight Quality Assurance Planning Group (TERRY MCKINNEY, 604-9288)  
Credit Card (JOE DOYLE, 604-9349)  
Data Mining (COL. WILLIAM KELLEY, 604-9312)  
Financial (PAUL GRANETTO, 604-9101)  
Financial Systems (MARIE BEIMA, 604-9139)  
Health Care and Morale (MIKE JOSEPH, 757-872-4698)  
Homeland Defense (DONALD BLOOMER, 604-8863)  
Human Capital (KIM CAPRIO, 604-9202)  
Information Technology (JACKIE WICECARVER, 604-9077)  
Logistics (DENNIS PAYNE, 604-8907)  
Readiness/Forces Management (DONALD BLOOMER, 604-8863)

Intelligence Joint Planning Group (DONALD BLOOMER, 604-8863)